Real Estate Insights, Forecasts & Strategies

Strategic Advantage

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What Is Going On?

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Friends & Colleagues:

We are in an incredible, once-in-a-lifetime period for the real estate industry when the unconventional and unexpected have become part of every company's DNA. Today's real estate challenges and opportunities are created by a combination of chance, synchronicity, coincidence and design. To work in a time of change, and in a sea of millions of integrated Stakeholder ecosystems, requires tolerating the uncertainty. Moving, operating and executing outside one's comfort zone can be frightening and unnerving as the unfamiliar overwhelms the familiar. Doing different things, rather than doing the same things differently must become the strategic mandate. **Within the real estate industry, there are things known and unknown**…**but it is the unforeseeable events in between that alter and question one's view of reality**. Is the real estate cycle ending? What is the impact of the IoT, advanced technologies, robotics and AI on the real estate industry? Are asset prices due for a correction? What happens if real estate pricing outpaces demand and the capacity/willingness to pay? What is the "network effect," and how does it impact our business model going forward? Can I achieve my budget or asset yield expectations? What is the impact of a tsunami of Baby Boomer retirements and phase downs? How can I afford to invest in technology that seems to have a shorter and shorter life span? Will brokerage services look the same 10 years from today? How can my firm stay relevant and competitive? The answers to these questions and many more like them raise the fundamental question, **"What Is Going On?"**

Living and working in a world of unknowns, uncertainty and change requires a tolerance for the unexpected. Remaining ordinary and not becoming extraordinary is a path toward insignificance. Staying relevant and competitive mandates a passion for knowledge, a commitment to excellence, aspirational and transformational leadership and an unyielding desire to find pathways for success and a strategic advantage.

The simultaneous convergence of 30 transformative events, plus the growing number of "wild cards" that could cause a tipping point to occur [positively or negatively], confront real estate professionals every day. Making use of relational systems theory, the experience of uncertainty is reflective of the regulatory processes in daily life. **The willingness to accept and embrace the uncertainty of change often determines a real estate firm's success or future**. What is going on….is accelerated and transformative change…a lot of it…and all at once!

How real estate firms accept/acknowledge the realities of today amid the exciting uncertainties of tomorrow is both a challenge and opportunity. **To survive and prosper in today's New Normal one must be a visionary, a dreamer, a practical leader, a knowledge-seeker, a collaborative solutions provider and an inspired and aspirational professional who has combined confidence with humility**.

A Perfect Storm Of Transformative Events

➢ Abundance of Capital	➢ Growth of the Sharing & Collaborative Economy	➢ Redefinition of Human Capital & Work
➢ Accelerating Technological Advancements	➢ Housing Affordability Challenges	➢ Retrenchment of Debt Markets
➢ Changing Global Economy and Borderless Marketplace	➢ Increasing Government Regulations, Taxes & Oversight	➢ Rise of Experiential Real Estate
➢ Demographic And Generational Shifts	➢ Increasing Role of Big Data	➢ Rise of the Independent Worker and the Gig Economy
➢ Disruption Caused by Acts of Nature & Global Warming	➢ Industry Consolidation	➢ Rising Operating Costs, Tenant Expectations & TIs
➢ Disruptive Technologies…Virtual & Augmented Realty…And Blockchain	➢ Internet Of Everything	➢ Robotics & Artificial Intelligence
➢ Emergence of New Competitors	➢ Legacy Exits And Multi-Generational Workforce Shifts	➢ Shifting Consumption Patterns
➢ Energy Shifts & Emergence of Alternative Options	➢ Looming Pension Fund Crisis	➢ Shifting Household Formation & Consumption Patterns
➢ Geo-centric Market Shifts	➢ Mobility and Distance are Being Redefined ("Spatial Economics")	➢ Uneven Economic Growth & Unprecedented Debt
➢ Global Service Providers Seeking Greater Control/Diversity of Platform	➢ Product & Service Innovation	➢ Urbanization and the Emergence of Multi-Purpose Real Estate

Source: CEL & Associates, Inc.

In the following pages, I will: highlight the now-what-is-going-on changes which are occurring; provide assurance and inspiration that **transformative changes are opportunities not challenges**; and share what one should consider when building a great company.

We Are In An Era – Not A Decade – Of Change

Many within the real estate industry view today's transformative events as "moments in time" or "changes not to be concerned about." However, **the confluence of today's demographic, technology, capital, asset, market, regulation, talent and operating platform changes are creating lasting transformations in the real estate industry**. These changes are so profound that what one thinks could happen is merely the tip of an immense iceberg. The real estate industry is experiencing three cycles simultaneously. We are in the following cycles: **Digital Age [2000 – 2040]**, a Mega Cycle which occurs every 40 years; a Super Cycle which occurs every 20 years…**Internet of Everything [2000 – 2020]**; and in the current 10-year Cycle called **Age of Capital, Asset and Entity Rebalancing [2010 – 2019]**. In the upcoming Super Cycle, **Generational & Demographic Transition [2020 – 2040]**, real estate leaders and firms must continuously challenge and shed the no-longer-relevant trappings of what worked yesterday and embrace the emerging New Normal. You cannot have a great tomorrow if you are anchored in yesterday. To quote Bob Dylan, "…Tomorrow is never what it is supposed to be."

In an Era of Change, one must understand that history is not linear. There is a connection, according to William Strauss and Neil Howe, between "past intention and future result." If the real estate industry were purely a linear event, then all buildings and companies would merely be a step to an end rather than a platform to make things better. While transformative change is not continuous, the manner in which a real estate company accepts and responds to challenges and opportunities will provide a roadmap for future success. **One does not disregard history…one must build upon history…and take ownership of today's and tomorrow's realities to create great outcomes**. Real estate firms that rest on past successes, yearn for a return to the "good old days" and believe that today's practices can be a competitive advantage tomorrow are mistaken. **While we all share the fundamental vantage**

Real Estate Industry Historically "Reacts" To Events

Decade	Events/Characteristics	Real Estate Industry's Reaction/Response
1950s	Post WW II Boom	Suburbia, interstate off-ramp development, manufacturing boom.
1960s	Movements Decade	Architectural "Modernism," urban renewal, public/private partnerships.
1970s	"Me" Decade	Tallest buildings completed, Freddie Mac, securitized debt.
1980s	Industrialized Wealth Production	Build-it-and-they will-come, Tax Act, New Urbanism, Regional Partner concept.
1990s	Dawn of Information Age	Emergence of the "Full Service Platform," service company consolidation and REITs.
2000s	Capital Abundance & the Internet	Securitized debt, financial engineering, proliferation of funds and over-leveraging.
2010s	Financial Crisis & Recalibration	Consolidation, restructuring, capital redeployment, consolidation and new strategic business models.
2020s	Globalization & Disruptive Technologies	Embedded IoT in assets, advanced building materials, retooling, rebranding and transformative succession planning.

Source: CEL & Associates, Inc.

of history with others, what one does with "future time" will determine the success or failure of one's journey.

Because **we are in an era – not a decade – of transformative change**, real estate firms must embrace a prospective, not retrospective, business model that identifies and anticipates opportunities. Constructing buildings the same way without acknowledging the future impact of robotics, drones, autonomous equipment, 3D printing, BIM technology, modular construction and new construction materials will result in a competitive and financial disadvantage. Leasing space without VR and AR technology, shared proprietary data bases and tenant sector indices would be a disservice to landlords. Providing property management services without factoring in the Internet of Everything ["IoE"], new consumer patterns, service branding, service expectations, emergence of the freelance workforce and the dramatic changes in work, the impact of the network effect and the shifting patterns of working will create a competitive disadvantage.

From new technologies to new business models, one cannot operate or prosper in an era of change without contemporary and prospective key strategies and business practices. As Lyndon B. Johnson said, **"Yesterday is not ours to recover, but tomorrow is ours to win or lose."** And one of my favorite quotes from Khalil Gibran, "Yesterday is but today's memory, and tomorrow is today's dream."

Technology Does Matter

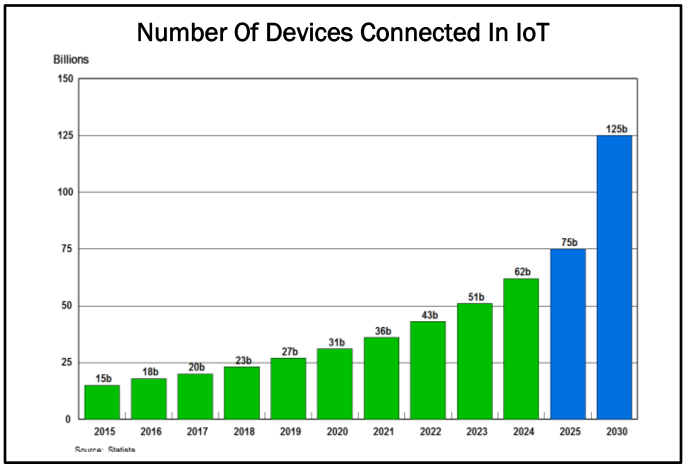
In 2015, slightly more than two years ago, 15.4 billion devices were connected worldwide. By 2025, that total is expected to reach 75.4 billion, and by 2020 around 125 billion. In 2014, there were 1.6 billion smartphone users worldwide [171 million in the U.S.]. By 2020, that number is expected to climb to nearly 2.9 billion [258 million in the U.S.]. The global market for RFID tags is expected to grow from $12.6 billion in 2016 to nearly $25 billion in 2020. Apple has sold 360 million iPads since they debuted in 2010. Google processes 3.5 billion searches per day, and 1.2 trillion searches per year worldwide. Facebook has around 2.2 billion "active" users. By 2020, consumers and businesses will spend $2.9 trillion on IoT devices. By 2020, there will be 100 million internet connected wireless light bulbs and lamps. By 2025, every new vehicle will be connected. **Technology is rapidly recreating the functionality and utility of office, industrial, retail and multifamily properties. We are moving to ubiquitous computing [a path to the invisible]**.

The Real Estate Industry Is Impacted By Mega And Super Cycles

Mega Cycles – Occur Every 40 Years	
1880 - 1920	Industrial Era
1920 - 1960	Nation Building
1960 - 2000	Boomer Awakening
2000 - 2040	Digital Age

Super Cycles – Occur Every 20 Years	
1880 - 1900	Rural Connectivity
1900 - 1920	Industrial Transformation
1920 - 1940	Infrastructure Expansion
1940 - 1960	Post-War Economy
1960 - 1980	Period of Change & Challenge
1980 - 2000	Financial Engineering
2000 - 2020	Internet of Everything
2020 - 2040	Generational & Demographic Transition

Source: CEL & Associates, Inc.



Over the past 20 years, and clearly in the past 10 years, the real estate industry's business models and platforms have changed dramatically due to digital innovation and technological advancements. **The industry's customers want personalization, a unique experience and seamless integration.** All technological disruption occurs simultaneously on an industry-wide scale…forcing/mandating significant changes to existing business models. **Those who remain or have convinced themselves to remain status quo have unconsciously and unfortunately taken the first step toward irrelevance.** In the past, real estate companies needed to change every 10 – 15 years…now it is *every* year. Over the next decade, artificial intelligence, **Cloud computing, IoT, cyber warfare, robotics, predictive analytics and online customer/product interface will advance not detract from one's success**. However, one cannot be a bystander…the time to embrace change and invest in the future is now!

In October 2017, Cushman & Wakefield announced a global partnership with smart building technology provider MCS Solutions, an IoT technology firm. In 2015, CBRE acquired Global Workplace Solutions for $1.5 billion. In 2011, JLL launched IntelliCommand [smart building technology]. In 2015, Colliers International acquired Strategic Building Solutions. These, plus many small "tech" acquisitions, are indicators of real estate service companies' aggressive moves into technology-based solutions applications.

Unfortunately, a growing number of real estate firms are rapidly becoming a sideline observer to the greatest opportunities yet to come. Someone once said, "Although the pace of change can be glacial, glaciers cannot be avoided. **Disruptions will eventually reach their destination." Skepticism, procrastination, it-will-be-the-next-leader's-problem, and avoidance are not viable strategies**. Technological advancements [for both products and services] are reducing the need for physical assets. **The IoT and digitization of what goes on *inside* a real estate property ["inside the four walls"] will continue to restructure and reshape** how one develops, finances, leases, manages, acquires and disposes of real estate assets. The value chain is changing. Real estate firms must lead instead of following digital transformation. Meeting customer demands and exceeding customer expectations will be based on speed of delivery, cost/price, technology value-add potential and sophisticated predictive analytics. Yes, relationships matter, but without a prospective business model, you cannot uncover under-utilized assets ahead of your competitors.

Internet Of Things

❑ Traffic management	❑ Consumer behavior monitoring
❑ Infrastructure repair notifications	❑ Resident tracking
❑ Digital currency / blockchain	❑ Inventory tracking / management
❑ Wearables / personal devices	❑ Driverless vehicles
❑ Biofeedback training	❑ Embedded sensors in building materials
❑ M2M	❑ RFID chips in carpet / flooring
❑ Find my __________	❑ Street lighting
❑ Digital dashboard	❑ Remote locks and thermostats
❑ Product monitoring [after the sale]	❑ The connected car
❑ Cognitive computing	❑ Smart windows
❑ Energy conservation / monitoring	❑ Suite of home control devices
❑ Engine sensors	❑ Subcutaneous implants

By 2020, 44ZB of data will be exchanged between connected devices.
44ZB = 44,000,000,000,000 Gigabytes!

Source: CEL & Associates, Inc. and multiple sources.

Remember…**you cannot control the tsunami of digital disruption**. It will outpace your ability to control it. Technology will not be the constraint on success…**your ability to embrace technology will be the ultimate governor on your speed of adaptation**.

The New Business Model

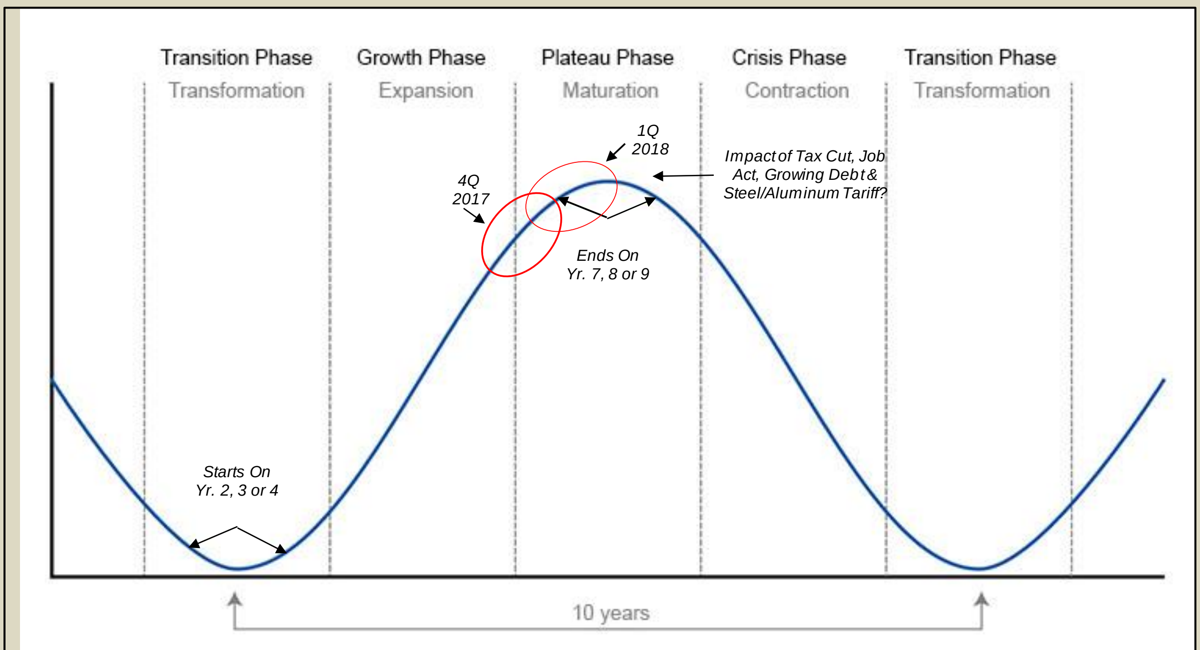
Current Model		Future Model
Dominated By Personalities	→	Dominated By Knowledge
Staffed By Employees	→	Comprised Of Collaborative Talent
Hierarchical Structure/Silos	→	Virtual Integration & Teams
Geo-Centric	→	Knowledge-Centric
Driven By Process	→	Driven By Creators Of Value
Governed By Organizational Charts	→	Consisting Of Networks & Alliances
Market Share	→	Customer Share
Based On Contracts	→	Based On Relationships & Connectivity
On-Time Fulfillment	→	Real-Time Fulfillment
Commodity-Driven	→	Experience-Driven
Service By Policy	→	Service By Intuitive Behavior
Focus On Service	→	Focus On Solutions

Source: CEL & Associates, Inc.

Technology does matter. The real estate industry is at the table of a high-stakes technology game [unknown to as many as 85% - 90% of today's Boards of Directors and 70% - 75% of today's CEOs] where how you play and place your bets will determine success or failure. **Firms such as Google/Alphabet, Facebook, Apple, Samsung, Microsoft, IBM, Intel, Cisco, Oracle, WeWork, Qualcomm, Hewlett-Packard and Tencent Holdings [among others] have become or are gearing up to become one of, if not the dominant force in the real estate industry.** Within 10 years, 3% - 5% of real estate firms will have a "tech" strategic relationship, and within 20 years, 30% - 35% [and 100% of the top firms] will have a tech partner, relationship or venture.

Real estate firms must create their customers' future while exceeding their Stakeholders' expectations. In the end, digital transformation does not occur in a silo or with one or more strategic business units; it must be a firm-wide commitment and initiative. **Leverage comes from finding unrecognized gaps in the rules**. To meet today's technology challenges, and create tomorrow's opportunities, you must have a clear vision, strategic purpose and an enterprise aspiration of what "can be." Technology and

Real Estate Cycle Phases



Source: CEL & Associates, Inc.

technological advancements can be challenging, daunting and disruptive. However, every adventure begins with a first step. **Now is the time to position your company for tomorrow.** An inability or unwillingness to do so is a guaranteed prescription for irrelevance.

Unleash Your Talent

Fact…there is not one action, event, task or outcome in real estate that has not involved one or more people. While technology and systems/processes can accelerate, streamline and improve results, **talent is a company's most valuable, integral and reliable asset**. Unfortunately, talent often becomes secondary to capital, historical precedents or legacy traditions. Rather than asking if one has the right talent, firms tend to ask what boxes on the organization chart need to be filled. As a result, **a growing number of real estate leaders and employees feel unappreciated, stifled, bored, career-blocked or "out-of-the-loop."** Unable to express their intrapreneurial mindset, their good and sometimes great ideas are never expressed or implemented. Telling or requiring next-generation talent, or any talent for that matter, to "do your job," perform in a robotic/structured manner or "keep your ideas to yourself," is archaic and stifling. According to a recent Gallup survey, 51% of U.S. workers are "not engaged at work [i.e., feel no real connection to their jobs], and another 16% are "actively disengaged" [i.e., resent their jobs]. Executive search firms specializing in the real estate industry indicate that 2017 revenues were up around 18% - 23%, with comparable growth expected in 2018.

In a **knowledge-centric workplace environment, employees at all levels want: to engage in meaningful, two-way communication with their peers**, subordinates and supervisors/leaders; the tools to perform; the permission/empowerment to pursue success and an endorsement of their contributions to success; accountability with clear performance goals and expectations; and a clear path to personal and career development and success. With a culture of continuous learning and a workforce asking "what's next," within a team of collaborators, the level of success will be determined by the quality of one's talent management platform. **The key to success within every real estate firm is to uncover,**

Compensation Trends

Year	Metric	Merit Increases					Other Budget / Planning Trends				
		Top Executives (1)	Senior Management	Exempt Employees	Non-Exempt Employees	Overall Company	General Inflation Rate	Incentive Compensation Bonus Realization	U.S. GDP Growth	Total Medical $ Growth	Employee Share of Healthcare Costs
2009	Average		1.4%	2.0%	2.1%	2.0%	-0.3%	64.4%	-2.8%	7.5%	14.7%
2010	Average		2.2%	1.9%	1.9%	2.0%	1.6%	67.3%	2.5%	7.8%	8.0%
	75th Percentile		3.5%	3.3%	3.1%	3.5%					
2011	Average		3.0%	2.6%	2.7%	2.8%	3.2%	73.5%	1.6%	7.7%	9.3%
	75th Percentile		3.8%	3.4%	3.3%	3.6%					
2012	Average		2.5%	2.8%	2.6%	2.8%	2.1%	78.6%	2.2%	6.9%	7.2%
	75th Percentile		3.0%	3.2%	3.0%	3.2%					
2013	Average		3.2%	3.2%	3.0%	3.1%	1.5%	81.8%	1.7%	6.3%	6.5%
	75th Percentile		3.2%	3.5%	3.0%	3.2%					
2014	Average	3.3%	3.2%	3.2%	3.0%	3.2%	1.6%	84.2%	2.6%	5.4%	6.0%
	75th Percentile	3.6%	3.5%	3.5%	3.0%	3.5%					
2015	Average	3.1%	3.5%	3.5%	3.2%	3.4%	0.1%	82.8%	2.9%	6.3%	8.0%
	75th Percentile	3.0%	4.0%	3.6%	3.0%	3.6%					
2016 (2)	**Average**	**3.0%**	**3.4%**	**3.4%**	**3.3%**	**3.4%**	**1.3%**	**86.7%**	**1.5%**	**4.7%**	**5.3%**
	75th Percentile	**3.5%**	**4.0%**	**3.8%**	**3.3%**	**3.8%**					
2017 (3)	**Average**	**3.0%**	**3.2%**	**3.3%**	**3.1%**	**3.2%**	**2.2%**	**87.5%**	**1.9%**	**4.3%**	**5.9%**
	75th Percentile	**3.5%**	**3.5%**	**3.5%**	**3.1%**	**3.4%**					
2018 (4)	**Average**	**3.5%**	**3.5%**	**3.3%**	**3.2%**	**3.4%**	**2.6%**	**88.5%**	**2.5%**	**5.5%**	**5.6%**
	75th Percentile	**4.3%**	**3.7%**	**3.6%**	**3.5%**	**3.6%**					

(1) New Merit Increase category in the 2014 CEL National Compensation Survey - defined as positions reporting to the CEO, generally "C" Suite positions and/or Senior officers.

(2) Final (Actual) 2016 Merit Awards as reported in CEL 2017 National Compensation Survey.

(3) 2017 figures based on CEL 2017 National Compensation Survey (2Q/3Q 2017).

(4) Forecast for 2018 incorporates early feedback on assumptions for budgeting.

Source: CEL & Associates, Inc./CEL Compensation Advisors, LLC.

apply and exceed the skills and strengths of every employee. Creating an inclusive workplace environment, where everyone can be authentic and a contributor, must be the desired outcome.

Real Estate Industry's Talent Trends

Era	Name	RE Employment Characteristics
1970s	Awakening Boomers	— Careers began in construction or architecture
		— Local relationships mattered
		— Generational-based
1980s	Coming Of Age Boomers	— Entrepreneurs and financial engineering flourished
		— Development and 86 Tax Act took center stage
		— The "MBA" real estate professional emerged
1990s	Process Takes Center Stage	— Focus on systems and process
		— National firms emerge
		— Growth in college/university real estate degrees

Source: CEL & Associates, Inc.

Today, **real estate firms must inspire in-person collaboration**. The tendency to interact/communicate almost exclusively via text, email or voice mail will end up creating a solitary workplace environment. **While there will be a point where "my AI will meet with your AI," and digital simulacra could replace physical presence**, real estate firms today must acknowledge, prepare for and respond to the future of work [you may want to read the January 2018 issue of *Strategic Advantage*].

Real Estate Industry's Talent Trends

Era	Name	RE Employment Characteristics
2000s	The Great Reset	— Dramatic real estate employment highs and lows
		— Capital and entity rebalancing
		— Organization and operational platforms redesigned
2010s	Gray Wave Peaking	— Succession becomes a priority
		— Consolidation and legacy exits
		— Technology takes center stage
2020s	Work For Me Era	— Compensation and HIPO retention #1 priority
		— Redefinition of work and jobs
		— Age of AI, robotics and automation

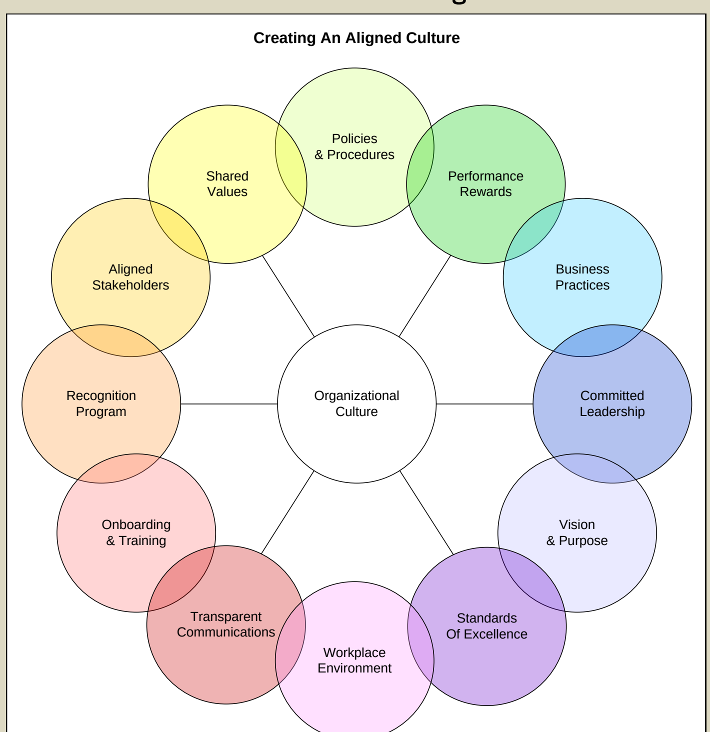
Source: CEL & Associates, Inc.

Interestingly, real estate Talent Managers are in a constant search for "profitable" and "culturally-aligned" talent. However, in a hyper-competitive marketplace, finding, hiring, motivating, retaining and rewarding talent, the following five emerging employee expectations must be acknowledged: [1] employees are becoming more loyal to their profession than to their employer; [2] employees are more concerned about work/life balance; [3] employees are increasingly taking ownership of their careers; [4] employees want to feel that their opinions matter; and [5] employees want less structure and hierarchical authority, and are willing to accept responsibility and accountability for their actions.

While there is no one-size-fits-all, real estate firms must achieve vertical and horizontal alignment to be successful. Aligning business strategies with talent management strategies will increase morale, productivity, customer satisfaction, innovation and performance.

Unleashing one's talent must begin with the right leaders, right talent, right business model and an aligned culture. Today's workplace must reflect the *total experience* [physical, intellectual, emotional, social, virtual and aspirational]. Office or workplace layouts are designed for collision, collaboration and communication. Employees are becoming brand advocates for the firm. **Building an "Internet of Workplace" and implementing a "Workplace For Me" operating system and structure will engage, inspire and unleash your talent**.

What It Takes To Create An Aligned Culture



Source: CEL & Associates, Inc.

CEL & Associates, Inc.

Capital Is Struggling To Find Opportunities

In a sea of capital raised or dedicated for real estate investments [likely around $300 billion - $400 billion today], a historically low interest rate environment and recently passed favorable tax legislation, one might think that the future is unlimited. Unfortunately, this is not true and, as the current real estate cycle proceeds toward its eventual and fairly-soon ending, capital cannot find and is in a constant search for opportunities. In a recently-completed Preqin survey of **Real Estate Fund Managers, 62% of respondents expressed concern over asset values, and 37% indicated their concern over "deal flow." In a November 2017, Fund Manager survey, 48% felt that the market has "peaked."**

Real Estate Cycles Transition Indicators

Transition Indicators	
❑ Peaking Occupancy Levels	❑ Generous TIs
❑ Peaking Rents & NOIs	❑ Rent Concessions
❑ High Investment Sales Activity	❑ Protracted Negotiations
❑ Peaking Asset Values	❑ Flattening/Rising Cap Rates
❑ Abundance Of Capital	❑ Limited Access To Credit
❑ Fewer "Feasible" Deals	❑ Struggling Competitors
❑ General Uncertainty/Anxiety	❑ Accelerated Transactions
❑ Accelerated M & A	❑ Defaults Emerge
❑ Shoring-Up Renewals	❑ Asset Preservation
❑ Fee Pressure	❑ Talent Turnover
❑ Consumer Spending Decline	❑ Job Growth Slowdown

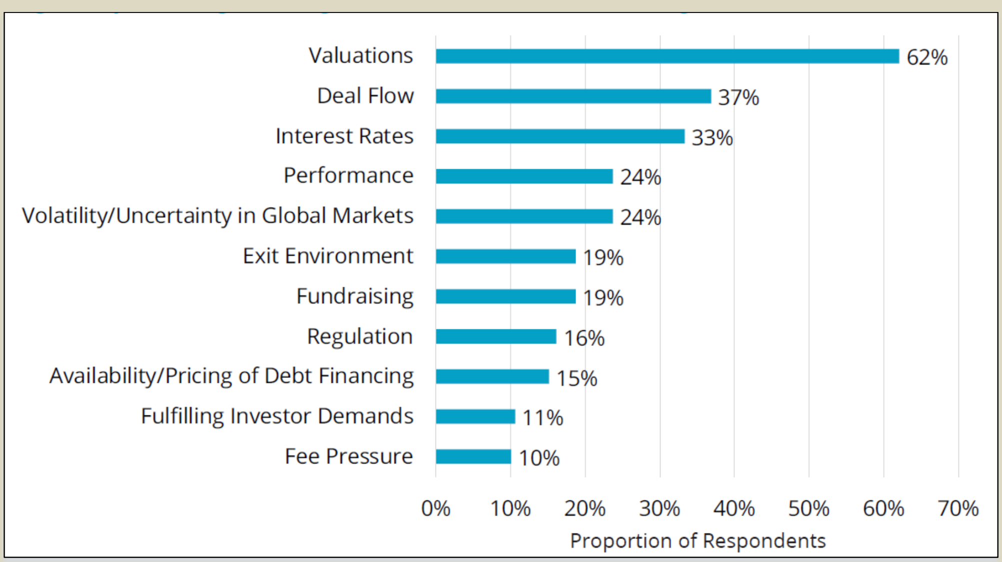
Source: CEL & Associates, Inc.

Through April 2, 2018, NAREIT's one-year compounded returns by asset class saw: office down 3.93%; retail down 11.25%; healthcare down 15.95%; and multifamily down 1.87%. Only industrial and self-storage showed positive gain, up 17.33% and 2.69%, respectively. According to Real Capital Analytics, [YOY 2017], every asset class was down except industrial. As a result, fund raising in 2017 declined, and the pressure to deploy capital that meets or exceeds the target returns is becoming very challenging.

The implications of this abundance of capital have shifted investment strategies. **Today, capital is becoming very geo-centric focused and highly specialized.** Those markets with diversified and growing economies, positive population growth, educated talent base, reduced regulations, lower taxes and less government intervention, robust mass transit systems, and home to creative class and STEM jobs are very often recipients of the real estate capital.

Capital is also becoming very niche or specialized and appears to be slowly reducing deal structure criteria and expected returns. Rapid advancements in technology and digitization probably will reduce demand for traditional retail and office assets. Assets which can be "data-mined" and are environmentally desirable will outperform other properties which cannot or are not. The looming and

Key Challenges Facing RE Fund Managers



Source: Preqin Fund Manager Survey, November 2017 unanswered question is whether occupiers [tenants] will be willing to pay for the added features, improvements and amenities.

In-depth insights on local or niche markets, proprietary data that can validate general underwriting processes and alignment with local or strategic partners will be critical. Subsector specialization, public/private partnerships, contemporary property designs and development and cost mitigation will be needed to secure a recurring source of capital. **Real estate investment sales brokers must validate the future, not present historical data that is expected to continue for years to come**. Real estate investors should better understand that a major metro is not one market but has many sub-markets. Capital must be shown how that asset will achieve a strategic and competitive advantage.

Geo-Centric Opportunities

Knowledge Cities		Emerging Knowledge Cities	
Atlanta, GA	Nashville, TN	Ann Arbor, MI	Madison County, AL
Austin, TX	New York City, NY	Bethesda, MD	Madison, WI
Baltimore, MD*	Northern Virginia	Boulder, CO	Milwaukee, WI
Bellevue, WA	Philadelphia, PA	Charleston, SC	Norfolk, VA
Boston, MA	Portland, OR	Cincinnati, OH	Oakland, CA
Chapel Hill, NC	Raleigh-Durham, NC	Colorado Springs, CO	Oklahoma City, OK
Charlotte, NC	Redmond, WA	Ft. Collins, CO	Provo, UT
Chicago, IL*	Salt Lake City, UT	Hartford, CT	Pittsburgh, PA
Dallas-Ft. Worth, TX	San Diego, CA	Huntsville, AL	Richmond, VA
Denver, CO	San Francisco, CA	Indianapolis, IN	Tampa, FL
Houston, TX	Seattle, WA	**Potential Knowledge Cities**	
Los Angeles, CA	Silicon Valley, CA	Birmingham, AL	Virginia Beach, VA
Miami, FL	Tulsa, OK	Detroit, MI*	Warren, MI
Minneapolis, MN	Washington, D.C.	Trenton, NJ*	Wilmington, DE

Source: CEL & Associates, Inc.
* Long-term status: Fiscal and/or political challenges may alter a Knowledge City's status in the future.

In 2017, non-traditional lenders increased their market-share and, according to Real Capital Analytics, liquidity matters. **"For every point increase in liquidity score, a market's cap rate is expected to compress by almost 3 basis points."** I recommend that interested real estate investors visit [ABL Advisor "Deal Tables" website] for up-to-date descriptions of the multitude of deal structures consummated in 2018. When the industry is entering a cycle change, one of the early indicators of a shift is a "lack of deal flow" at prices than can generate the desired yield.

Consolidation Is Accelerating

In 2004, CEL & Associates, Inc. predicted that within two decades 30% fewer firms would exist in the real estate industry. We are well down that path, and **by 2025 we could see that percentage rise to nearly 35%.** CEL & Associates, Inc. conducted a stratified survey of IREM members, and 55% indicated that they would be retiring by 2025. Another **CEL & Associates, Inc. survey found that by 2025, 57% or more CEOs and around 43% of CFOs plan to retire by 2025**.

Why Real Estate Executives Don't Retire

- Lack of qualified talent to replace them.
- Lack of financial resources/savings to retire.
- Lack of interests or hobbies outside of their job (i.e., what would I do?).
- Identity and sense of being is in their title, role or job (i.e. "sense of worth" and "sense of relevance").
- Distorted work ethic ("everyone depends on me").
- Inability or unwillingness to let others make decisions and let go.
- Feeling that "I can still contribute."
- Feeling that retirement means, "I'm old."
- Continued passion for the job, ("I love what I do")
- Partners and/or Management does not address the issue with aging leaders for fear of upsetting those impacted.
- Do not want to regret their decision ("my buddies told me it was a big mistake when they…").

Source: CEL & Associates, Inc. Survey.

When Founders retire, selling "their" company can become an attractive option or when aspiring entrepreneurs discover that they need capital and a platform to grow, they are eager to be acquired. CBRE's acquisition of Custom Spaces and Brenner Real Estate Group; Colliers acquisition of CASE Commercial and Serten Advisors; JLL's acquisition of Urbis Partners and Advance Technologies Group; Cushman & Wakefield's acquisition of NorthMarq Companies and Multi Housing Advisors are the leading edge of an avalanche of company and team mergers and acquisitions that have occurred over the past 48 months. When you add the growing number of developers and boutique full-service real estate firms seeking to monetize their platforms, consolidation is the inevitable outcome.

The impact of consolidation and succession uncertainty manifests in an inability to recruit, retain and motivate talent. Why real estate Executives don't retire is too often based on personal, psychological and/or self-worth reasons. However, further consolidation is inevitable…and that is What Is Going On!

Closing Comments

If you and your company plan to prosper in the years ahead…if you want to stay relevant and achieve a competitive advantage…and if you want to move beyond your self-imposed limitations, then creating a vision and core strategies to get there must become a priority. **The path to success begins with an understanding of "What Is Going On."** Remember, when you get to where you are going, only then can you spread your wings and fly to your personal and professional destiny.

I welcome your comments, feedback, insights and perspectives.

Regards,

Christopher Lee

SPECIAL ANNOUNCEMENT

Over the past 23 years, we have received hundreds of emails and inquiries asking us to create a more frequent "one- to two-pager" on matters of strategic importance. We are pleased to announce that **we have launched a bi-weekly brief entitled *Leadership Conversation***. This features one topic, provides recommended strategies, includes a prediction and highlights key questions to ask at your next Executive or Management Committee. The feedback for this concept and format has been very positive, and we are excited for this kickoff. ***Strategic Advantage*, our regular newsletter, will continue as a quarterly publication.**

SPREAD THE WORD

If you enjoy reading ***Strategic Advantage*** and ***Leadership Conversation***, and have benefited or received value from our insights and recommendations over the past 23 years, perhaps your friends, business associates, other members of your team or industry peers will also enjoy it.

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http://www.celassociates.com/onlinenewsletter/work-is-being-redefined-sa-k011718.pdf

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http://www.celassociates.com/onlinenewsletter/re-business-valuation-models-sa-k092417.pdf

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http://www.celassociates.com/onlinenewsletter/what-keeps-you-up-sa-k073017.pdf

Get Ready For Transformative Change!

http://www.celassociates.com/onlinenewsletter/transformative-change-sa-k050117.pdf

The Six Disruptors Transforming The Real Estate Industry

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The Real Estate Industry In 2025 100 Bankable Predictions You Need To Know Part III

http://www.celassociates.com/onlinenewsletter/BankablePredictions-PartIII-SA-K031416.pdf

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The Real Estate Industry In 2025 100 Bankable Predictions You Need To Know Part I

http://www.celassociates.com/onlinenewsletter/BankablePredictions-PartI-SA-K021416.pdf

Millennials Will Have A Dramatic Impact On Real Estate!

http://www.celassociates.com/onlinenewsletter/MillennialsImpactOnRealEstate-SA-K091215.pdf

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The Future Of Retail Real Estate…A Tsunami Of Change Is Underway

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Succession Planning Must Begin…Now!

http://www.celassociates.com/onlinenewsletter/SuccessionPlanning-SA-K041114.pdf

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